

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF WHITLEY COUNTY)	2021-00157
WATER DISTRICT #1)	

ORDER

On April 5, 2021, Whitley County Water District #1 (Whitley District #1) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure in 807 KAR 5:068.¹

The Commission notes that in Whitley District #1's 2019 Annual Report a water loss of 39.1003 percent was reported.² Whitley District #1's application provides updated purchases and sales information for a more current period than the 2019 Annual Report. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's unaccounted for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2019 Annual Report,³ Whitley District #1's unaccounted-for water

¹ KRS 278.015; 807 KAR 5:068.

² *Annual Report of Whitley County Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Year Ended December 31, 2019*, at 57.

³ *Id.*, line 22 (2,548) divided by line 4 (276,036) equals 0.9231 percent.

loss is determined to be 40.73 percent for the updated period.⁴

Reduction of Whitley District #1's unaccounted-for water loss to 15 percent would result in an approximate \$207,588.39⁵ decrease to purchased water expense. Potentially, Whitley District #1 is paying \$1.22 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the allowable 15 percent⁶ threshold.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Whitley District #1 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Whitley District #1 to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

In a review of Commissions records from 1985 to the present, the Commission notes that its records indicate Whitley District #1 has not sought a general base rate adjustment since 2000. Whitley District #1 has not sought a general adjustment in rates by any other means than through financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity. The practical result of such policy

⁴ Total Purchases (Application, Exhibit B)	291,867,390
Less Total Sales (Application, Exhibit B)	170,307,000
Less Plant Use (% determined from 2019 AR)	<u>2,694,228</u>
Water Loss – Gallons	118,866,162
Water Loss – Percent	40.73%

⁵ Water loss above 15 percent is 25.73 percent, potential purchased water expense reduction (Total water cost at new wholesale rate times water loss above 15 percent) = \$207,588.39

⁶ Potential purchased water expense reduction divided by sales (\$207,588.39/ (170,307,000/1,000)) equals \$1.22 per 1,000 gallons.

is that Whitley District #1 has managed to avoid Commission review of its financial records and operational structure for more than 20 years.⁷ While Whitley District #1 has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in a RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. In Case No. 2019-00041 and the resulting investigative report, the Commission discusses the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.⁸ A key recommendation from that investigative report was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁹ In evaluating Whitley District #1's financial records, the Commission notes that in its past five annual reports filed with the Commission, Whitley District #1 reported a total water loss of near or over 15 percent every year.¹⁰ An examination of finances outlined in the annual reports filed with the

⁷ Whitley District's last application for a general adjustment of rates was filed in 2000 and the rates were adjusted in 2000. See Case No. 2000-00001, *In the Matter of an Adjustment of Rates of the Whitley County Water District #1* (Ky. PSC July 18, 2000).

⁸ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019) final Order.

⁹ *Id.*

¹⁰ *Annual Report of Whitley County Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2015* at 61; *Annual Report of Whitley County Water District # 1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2016* at 57; *Annual Report of Whitley County Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2017* at 56; *Annual Report of Whitley County Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2018* at 57; *Annual Report of Whitley County Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2019* at 57.

Commission finds that Whitley District #1 has been operating with a negative net income for four of the past five years, which indicates that cash needs may have been supplemented by depreciation reserves, as shown below.¹¹

Year	2015	2016	2017	2018	2019
Net Income	\$ (109,851)	\$ (5,333)	\$(181,619)	\$200,875	\$(344,584)
Add: Depreciation Expense	513,791	513,190	493,614	504,453	507,897
Cash Basis Income	\$ 403,940	\$ 507,857	\$ 311,995	\$ 705,328	\$ 163,313

Year	2015	2016	2017	2018	2019
Cash and Cash Equivalents	\$ 106,365	\$ 269	\$ 42,052	\$ 124,484	\$ 103,758
Restricted Cash	72,884	268,076	101,654	346,298	404,216
Sum: End-of-Year Balance	179,249	268,345	143,706	470,782	507,974
Net Increase (Decrease) in Cash	---	(106,096)	41,783	82,432	(20,726) ¹²

The Commission’s review of Whitley District #1’s financial records indicates that Whitley District #1 should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order to ensure its revenue is sufficient to support adequate and reliable service.

¹¹ *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2015* at 25; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2016* at 20; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2017* at 20; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2018* at 21; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2019* at 21.

¹² *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2015* at 20 and 37; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2016* at 15 and 32; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2017* at 15 and 32; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2018* at 16 and 33; *Annual Report of Whitley Water District #1 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2019* at 16 and 33.

Having reviewed the record and being sufficiently advised, the Commission finds that:

1. Whitley District #1 purchases water from the city of Jellico, Tennessee (Jellico), the city of Corbin (Corbin), the city of Williamsburg (Williamsburg), and McCreary County Water District (McCreary District).

2. McCreary District notified Whitley District #1 that its wholesale rate would increase from \$3.76 per 1,000 gallons to \$7.29 per 1,000 gallons, effective February 22, 2021.¹³ Whitley District #1 proposes to increase the water rates to its customers effective May 1, 2021, to reflect the increased cost of purchased water from McCreary District.

3. Whitley District #1 proposed a purchased water adjustment factor of \$0.21 per 1,000 gallons in its application.

4. During the 12 months ended December 31, 2020, Whitley District #1 purchased 66,712,500 gallons of water from Jellico; 126,619,000 gallons of water from Corbin; 88,406,000 gallons of water from Williamsburg; and 10,129,890 gallons of water from McCreary District with a total of 291,867,390 gallons of water purchased from all sources.¹⁴ During the same period, Whitley District #1 sold 170,307,000 gallons of water. The increase in the cost of purchased water is \$35,758.51 resulting in a purchased water adjustment factor of \$0.21 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.21 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable and should be approved.

¹³ Application, Exhibit A.

¹⁴ *Id.*, Exhibit B.

6. Whitley District #1's proposed rates should be approved.

7. The rates as set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Whitley District #1 on and after May 1, 2021.

8. Whitley District #1 should file an application for an adjustment in base rates within one year of the date of entry of this Order.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.21 per 1,000 gallons is approved.

2. The rates proposed by Whitley District #1 are approved.

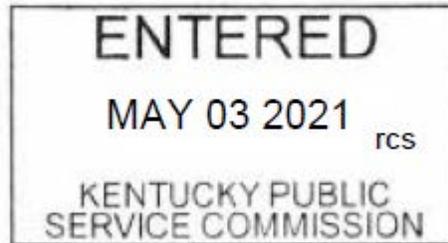
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Whitley District #1 on and after May 1, 2021.

4. Within 20 days of the date of entry of this Order, Whitley District #1 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. Whitley District #1 shall file an application for an adjustment in base rates within one year of the date of entry of this Order.

6. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00157 DATED MAY 03 2021

	Base Rate	New Rate	Increase
McCreary County Water District			
Purchases in Gallons	10,129,890	10,129,890	
Wholesale rate	<u>\$ 3.76/1,000</u>	<u>\$ 7.29/1,000</u>	
	\$38,088.39	\$73,846.90	\$35,758.51
City of Corbin			
Purchases in Gallons	126,619,000	126,619,000	
Wholesale Rate	<u>\$2.20</u>	<u>\$2.20</u>	N/A
	\$278,561.80	\$278,561.80	
City of Williamsburg			
Purchases in Gallons	88,406,000	88,406,000	
Wholesale Rate	<u>\$2.50</u>	<u>\$2.50</u>	N/A
	\$221,015.00	\$221,015.00	
City of Jellico, TN			
Purchases in Gallons	66,712,500	66,712,500	
Wholesale Rate	<u>\$3.50</u>	<u>\$3.50</u>	N/A
	\$233,493.75	\$233,493.75	
Increased water cost			\$35,758.51
Increased water cost		\$ 35,758.51	
Divided by Gallons sold/1,000		<u>170,307,000</u>	
Purchased water adjustment factor		\$ 0.21 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00157 DATED MAY 03 2021

The following rates and charges are prescribed for the customers in the area served by Whitley County Water District #1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First	1,000 Gallons	\$19.72 Minimum Bill
Next	4,000 Gallons	.00718 per gallon
Next	95,000 Gallons	.00676 per gallon
Over	100,000 Gallons	.00621 per gallon

*Mr. Kenneth Taylor
Kenvirons, Inc.
452 Versailles Road
Frankfort, KENTUCKY 40602

*Sandra Smith
Manager
Whitley County Water District #1
19 S Highway 25W
Williamsburg, KY 40769

*Whitley County Water District #1
19 S Highway 25W
Williamsburg, KY 40769